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SUBJECT: IRAN'S REAL ESTATE AND CONSTRUCTION INDUSTRIES: HIGH PRICES
ALL AROUND

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CLASSIFIED BY: Jason L. Davis, Consul General, Dubai, UAE.
REASON: 1.4 (b), (d)

1.(C) Summary: The real estate and construction industries in Iran suffer from high costs and corruption. Home ownership remains elusive for many Iranians, a problem especially those who can ill afford to pay ever increasing rents. Prices have risen throughout Iran as a result of the high price of building materials and government restrictions. End Summary.

2.(C) Over the past several months, Conoff has spoken with a number of Iranians, mainly visa applicants, about the real estate market and construction industry in Iran. Most say that housing prices, including rent, throughout Iran are very high in relation to incomes. Minoo Rafiei, an Iranian Ministry of Housing and Urban Development employee and professor at Tehran University, told Conoff that housing prices especially in Tehran had risen significantly in recent years, though they had lately leveled off. The rise in prices was greatest in southern Tehran because there were so many buyers and not enough houses or apartments to go around. Judging from visa interviews, rental properties are a good source of additional income.

Mortgages Not an Option for Many

3.(C) Rafiei told Conoff that many Iranians who want to buy a home or apartment cannot afford it on their own. Many of these people would want to apply for loans to achieve home ownership, but do not qualify for home loans available under Iran's current banking system. She mentioned that she was working on a project (NFI) with the United Nations looking for ways to loosen up the banking industry in Iran in order to allow for home loans to low-income Iranians.

Working to Alleviate Overcrowding, But with Little Success

4.(C) Rafiei told Conoff that the government has built forty suburban cities throughout Iran to decrease the impact of urban migration. Each city was intended to eventually house up to one million people. Unfortunately, the plan thus far has failed. Nobody wants to move to these cities. One of the cities is located near the new Imam Khomeini International Airport outside Tehran. No one is moving to this city because there are no jobs, except at the airport, and the commute into Tehran is a "nightmare." (Note: The new airport is located 30 kilometers south of Tehran. Visa applicants and contacts alike have told Conoff that getting to the airport often takes several hours, especially during rush hour.)

5.(C) A Tehran University geography professor told Conoff in early August that for Iranians, owning one's own home or apartment is the key to living a comfortable life. Rental prices continue to climb, and she estimated that the majority of the income of poorer Iranians goes towards paying rent, with little left for other expenses. A third Tehran University professor echoed these sentiments, mentioning specifically that a small 1-bedroom apartment in Tehran rents for 300,000 to 500,000 tomans (approximately 329-549 USD) a month -- more than the average Iranian's monthly salary. As a result, she said, most Iranians must work at least two jobs just to pay the rent. These comments are supported by separate anecdotal information from the visa line.

Causes of High Prices -----

6.(C) Aside from pure supply and demand -- too many buyers/renters and too little available housing in desirable areas -- one of the main reasons housing prices have soared is the rising cost of construction materials. One of the biggest complaints of applicants who work in the construction business is the rising cost of such materials, especially cement. In order to recoup their costs, they must pass on the cost to the consumer. According to one visa applicant heavily involved in the construction business, prices have leveled off recently, but the price of construction materials, especially cement, remains high. The Chairman of the Board of an Iranian concrete company with offices in Tehran and Dubai told Conoff on mid-December the price of cement in Iran goes up yearly in the spring. He told Conoff that this year the price of cement went up 27.6 percent in May -- a percentage he said was not out of the ordinary. He did not elaborate on why cement prices increase yearly in the spring, but perhaps it is due to a rise in demand with the

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re-start of the building season after the winter.

7.(C) In mid-October, an economic expert told an Iranian newspaper that government organizations had purchased and stockpiled huge amounts of cement for new construction projects, leading to an increase in the price of cement throughout the country. Prices may also be high as a result of price manipulation: a Dubai-based Iranian businessman we spoke to claimed that the cement market is controlled by Habibollah Asgarowladi, Secretary General of the Islamic Coalition Society -- a key conservative political group. According the businessman, cement prices could be artificially high due to the influence of Asgarowladi and his ties to those in power the bazaar.

8.(C) One factor said to have impacted housing prices in Tehran is former Mayor Ahmadinejad's municipal policies. A Dubai-based Iranian businessman told Conoff in mid-July that Ahmadinejad as mayor had done little for Tehran, except restrict building permits. Despite the good intentions behind the policy -- preserving the character of residential and historic areas of the city -- the end result was increased rents. The only people who ultimately profited from the policy were landlords, and those individuals/companies who had secured building permits before the restriction went into effect. According to Iranian press, there was a 14 percent decline in the number of building permits issued between March and August of last year.

Construction Industry Faces Downturn -----

9.(SBU) Ironically, given sky-high real estate prices, the Iranian press is reporting that the construction industry is currently in the midst of a recession. Economic uncertainty brought about by Ahmedinejad's presidency might be a contributing factor: one Iranian builder told us that he had

taken out a number of options to build before the elections, but that the soft post-election economy had led him to shelve his plans. A senior member of the Iranian State Housing and Construction Association stated in late November that the activity in the construction industry could be down as much as 70 percent by the end of the current Iranian year. He complained that one of the key factors in the recession was the lack of support the industry receives from Iran's banking sector. He claimed the banking sector currently only provides 15-20 percent of the industry's financial requirements compared to 90 percent in other countries. He also criticized Tehran for tripling the industry's taxes this year, commenting that the government should not look to construction as a source of revenue.

Corruption Rampant in Construction Industry

10.(C) According to Iranian press reports from mid-October, the Judiciary and the Ministry of Information and Security have uncovered the "illegal buying and selling of land." It was not clear precisely what was illegal about the sales, but the reports indicated that losses to the government reached 6 trillion rials (approximately 660 million USD), suggesting that public land was being sold at below-market value, presumably in exchange for kick-backs. The money has supposedly been returned to the public treasury, though reports gave no indication of how the government had recouped the money. The construction industry is likewise rumored to be corrupt: one visa applicant who owns a construction company in Iran told Conoff that it is not out of the ordinary for building inspectors to receive large payoffs when they come to inspect buildings. Some inspectors are even offered payoffs in advance, and do not even come to the building site, instead signing off on the building sight unseen.

Comment

11.(C) To date, Ahmadinejad has failed to deliver on the promises of economic reform that helped get him elected. The high cost of housing (along with high un/under-employment) has led many young Iranians to delay getting married, but Ahmedinejad has reportedly withdrawn his "love fund" proposal, which had attracted many young voters with pledges of "a lump sum and interest free loans" aimed at helping youth from poorer families get married, find jobs, and buy homes. While the merits of the specific proposal may be dubious, it at least represented a public acknowledgment of real problems that needed to be addressed. At some point Ahmedinejad's penchant for headline-grabbing pandering to his public's baser instincts may cease to be enough to distract them from his failure to address their real-life problems.

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